

## **Subcommittee on State Employee Health Insurance**

The Subcommittee makes the following observations and conclusions about the state employee health insurance plan:

1. The Subcommittee thanks the bureau for arranging to have representatives of the actuarial firm Watson Wyatt to explain their work for the State of South Dakota. According to their testimony there have been many major initiatives undertaken (such as managed care, capitated network of clinics, fixed payments for major hospitals, and disease management) to keep the health plans' costs low. Watson and Wyatt estimates that in FY 2006, assuming there was no changes to limit costs, the state would spend \$94 million on claims, but with the advent of several initiatives, the projected claims cost is expected to be \$74 million—a savings of approximately \$20 million.

2. The Subcommittee notes that the total estimated cost, including all claims and administration, for FY 2006 is \$83 million, a difference of \$9 million from the \$74 million claims estimate. Taking this into account, the savings are reduced from \$20 million to \$11 million. Of that \$9 million difference, \$6.5 million is attributed to administration costs. Approximately \$6.5 million is planned for administration in FY 2007 too.

3. The Bureau of Personnel provided information to the Joint Committee that in FY 2007 the plan expected to take in revenues of \$80 million and spend \$91 million. The difference of approximately \$12 million is planned to be covered by:

- A. Plan design changes which are expected to save \$4 million;
- B. Contract negotiations with providers which are expected to save \$4 million; and
- C. An additional \$3.9 million appropriated by the Legislature.

4. If the above components 3A and 3B were not to be fully achieved, the Legislature may have to review the FY 2007 health insurance next session. At that time the question will be to what extent employees should pay for part of their premium. To have a better understanding of how the shortfall is being managed, the Subcommittee recommends that the Special Committee on Appropriations further study the state employee health insurance plan during the 2006 Interim. The Subcommittee further commends that the study include:

- A. Review of medical management vendor contract for case management and utilization for measurable effectiveness.
- B. Review the "hard" and "soft" cost savings for the last three fiscal years.
- C. Evaluate disease management program for cost effectiveness
- D. Evaluate effectiveness of the overall cost savings to date as described during the budget hearing of the 2006 Session.